

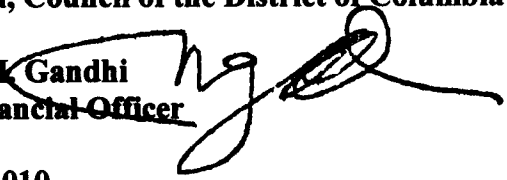
**Government of the District of Columbia  
Office of the Chief Financial Officer**



**Natwar M. Gandhi**  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Vincent C. Gray  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi   
Chief Financial Officer

**DATE:** May 24, 2010

**SUBJECT:** Fiscal Impact Statement – “Withholding Tax Compliance Reform Act of 2010”

**REFERENCE:** Bill Number 18-723, as introduced

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**Conclusion**

Funds are sufficient in the FY 2011 through FY 2014 proposed budget and financial plan to implement the provisions of the proposed legislation. The proposed legislation would increase individual income tax collections by an estimated \$4.4 million in FY 2011 and approximately \$10.3 million in the four-year financial plan period.

**Background**

The proposed legislation would disallow withholding exemptions for tax delinquents.

Specifically, the proposed legislation would amend §1812.08(e) of Title 47 of the District of Columbia Official Code to require zero withholding exemptions for employees with unpaid tax liability, employees who failed to file a required District of Columbia income tax return, or employees subject to a tax refund interception request. Such employees, once in compliance, would be allowed to apply for authorization to increase the number of withholding exemptions to a level that would not have resulted in underpayment of taxpayers’ most recent income tax return.

**Financial Plan Impact**

Funds are sufficient in the FY 2011 through FY 2014 proposed budget and financial plan to

implement the provisions of the proposed legislation. The proposed legislation, if implemented on January 1, 2011, would increase individual income tax collections by an estimated \$4.4 million in FY 2011 and approximately \$10.3 million in the four-year financial plan period. The Office of Tax and Revenue would incur a one-time administrative cost of \$90,000. This includes approximately \$85,000 for reprogramming costs, and \$5,000 for mailing costs. No additional funds are required for ongoing administration of the proposed changes.

The net fiscal positive impact of the proposed legislation is estimated to be \$4.3 million in FY 2011 and \$10.2 million in the FY 2011 through FY 2014 budget and financial plan period.

Much of the positive impact of the proposed legislation would fall in the first calendar year of its implementation, when a large number of taxpayers would not be entitled to withholding exemptions. In the following year, these increased collections would be balanced out by the increased refunds, except for a small proportion of taxpayers who might not take the necessary action to claim a refund.

<b>Estimated Fiscal Impact of Bill 18-723 - Withholding Tax Compliance Reform Act of 2010 FY 2011 - FY 2014</b>					
	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>Four Year Total</b>
Estimated increase in income tax collections <sup>a</sup>	\$4,414,737 <sup>b</sup>	\$2,840,148 <sup>c</sup>	\$1,537,800 <sup>c</sup>	\$1,537,800 <sup>c</sup>	\$10,330,485
One time administrative costs	\$90,000 <sup>d</sup>				\$90,000
Net positive fiscal impact	\$4,324,737	\$2,840,148	\$1,537,800	\$1,537,800	\$10,240,485

Table Notes

a Estimated for approximately 20,000 taxpayers with an average of 2.5 withholding exemptions, taxed at 7 percent in the first tax year. In the second tax year and subsequent tax years, it is assumed that 4,000 taxpayers are subject to the additional withholding.

b Each fiscal year reflects 75% of the withholding from that tax year and 100% of the refunds from the prior tax year. For FY2011, only the withholding is reflected.

c Six percent of the filers are expected to remain delinquent in the out-years.

d One time administrative costs include \$5,000 for mailing and \$85,000 for reprogramming of OTR's tax database.